

Determination of Property Tax Levels

2002 Adopted Budget

The five most important factors affecting the city government share of property taxes are:

- C the amount of city spending;
- C the availability of revenues other than property taxes;
- C the size of the tax base;
- C the composition of the tax base; and
- C the state determined class rates on property.

City Spending:

The first factor affecting city property tax levels is city spending. It is also the only factor under the direct control of the mayor and city council. Saint Paul must maintain a balanced budget, so all proposed spending must be covered with a financing source.

If city spending were the only factor affecting taxes, tax rates would mirror spending exactly.

Other Revenues:

The city reliance on property taxes as a financing source is dependent on the other revenues available to the city. The dominant other revenues are state aids such as Local Government Aid, (LGA), utility fees collected for the use of the city streets and by-ways, transfers from other funds of the city, collections of motor vehicle related fines, and interest earnings from cash balances. Trends for these other revenue sources are mixed. In recent years, the city has seen both growth and loss of these revenues. It is important that the city not rely too much on any single revenue source. Nevertheless, state aid continues to be an important factor in Saint Paul's ability to control property taxes.

Size of the Property Tax Base:

The first two factors, spending and other revenues, affect the total amount of tax dollars that must be levied. The remaining three factors determine how the total tax burden is distributed among all property owners.

The *tax base size* can be measured as the sum of the market value of all taxable properties. The absolute size of and changes in the tax base are attributable to many factors, the most important of which are: commercial industrial lease values, commercial industrial occupancy rates, and the strength of the market for homes. The larger the base, the broader the distribution of the tax burden.

The *composition* of the base affects the relative share of the tax load. The taxable property value, or tax capacity, is not the same on different classes of property. Apartments, residential homes, and commercial business properties have different taxable value (tax capacity). If the total value in one class of property grows faster than the other classes, it means those property owners in that class will pick up a greater share of the tax dollar levy burden.

The *class rate* system in Minnesota allocates differing shares of tax burden based on the use of the property. Agriculture, residential, apartments, and commercial or industrial property all have different tax burdens resulting from the class rate system. The 2001 legislature made significant adjustments to the class rates for payable 2002 taxes.

The *state property tax* will become effective pay 2002. This tax will apply only to commercial, industrial and seasonal recreation property. The impacts of this change will be felt most on referendum levies and tax increment programs.

Composition of the Tax Base:

The State of Minnesota's 2001 legislature made significant changes to the property classification system, reducing the difference in effective tax rates between residential and other types and classes of property. Most importantly, commercial and industrial properties are taxed at a uniform state-wide rate that impacts local governments in a manner not fully explored or understood at this time. The effect of having a healthy business sector is still expected to have impact on keeping residential property taxes down.

State Takeover of General Education Levies:

The 2001 legislature also converted the equalized General Education tax levy for school financing from local property taxes to state funding. This tax levy had a formula which collected more school financing from property rich school districts, and less from property poor districts. The balancing of a per pupil aid formula was made by the state. That mandated levy has been removed from the local tax burden and assumed by the state.

State Increase in Residential Aids:

The 2001 legislature has modified and increased the state aids to individual homeowners to buy down any impacts of class rate changes in the 2001 law. Income related assistance for residential property taxes has been modified and generally increased. The aids cannot be calculated or attributed to city aid. They are solely a function of family income and property tax liability.

Class Rates:

The 2001 state legislature changed the effective tax rates for all classes of properties. In recent years, tax rates for large business, rental residential and homes valued over \$75,000 have been reduced. The current class rate changes are shown below.

Property Class Rates for Saint Paul Properties **

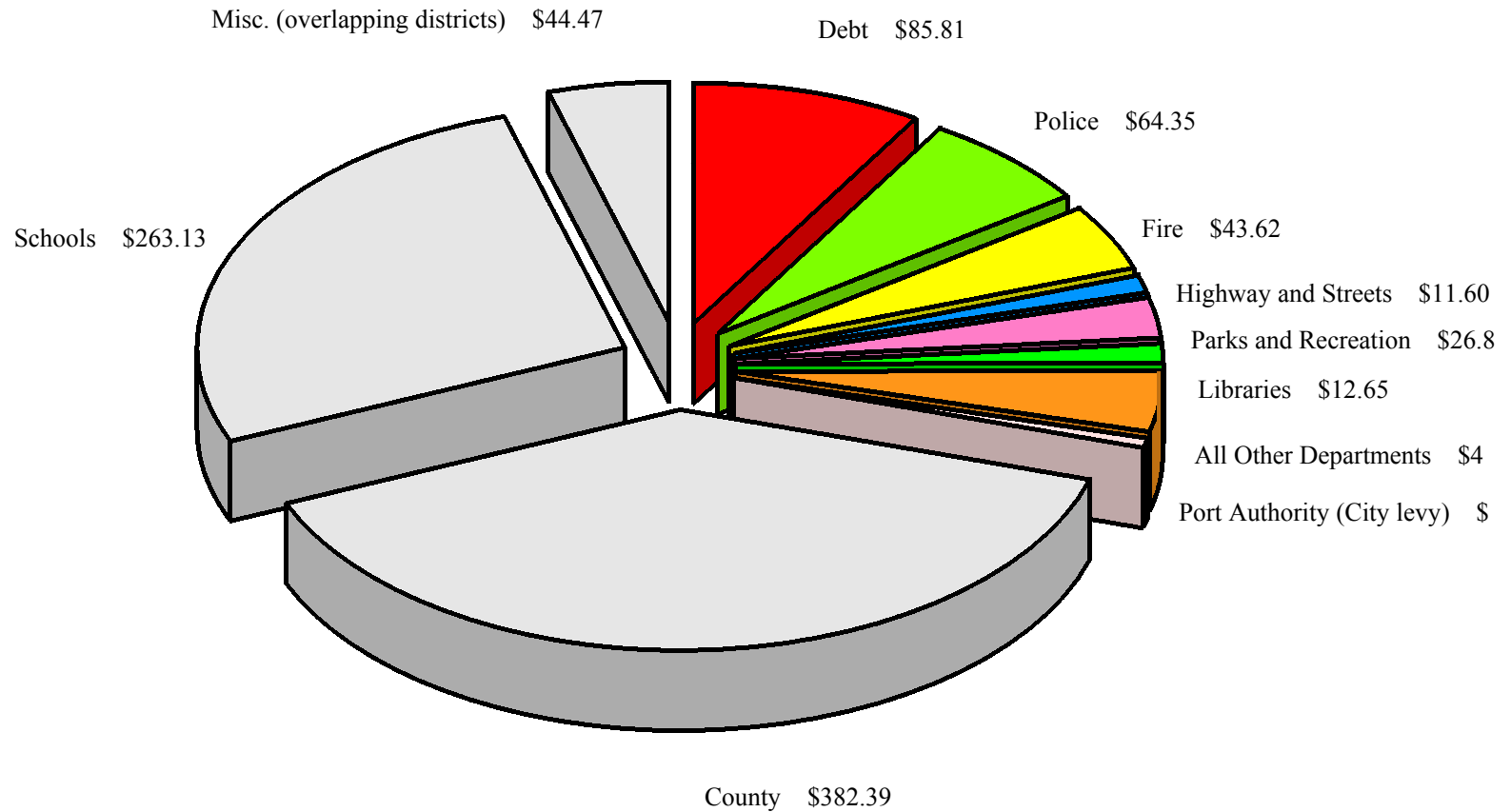
	Pay 2001	Pay 2002
Homestead Residential \$0-\$76,000 EMV	1.00%	1.00%
Homestead Residential \$76,000-\$500,000 EMV	1.65%	1.00%
Homestead Residential over \$500,000 EMV	1.65%	1.25%
Non-Homestead Resid. single unit < \$76,000	1.20%	1.00%
Non-Homestead Resid. single unit > \$76,000	1.65%	1.00%
Non-Homestead Residential 3 or less units	1.65%	1.50%
Non-Homestead Residential 4 or more units	2.40%	1.80%
Commercial/Industrial < \$150,000	2.40%	1.50%
Commercial/Industrial > \$150,000	3.40%	2.00%

EMV: estimate market value

** Class rate percentages are applied to the Estimated Market Values of property to reach Taxable Values. It is the taxable values against which the tax rate (formerly mill rate), is applied to reach a gross payable tax.

Estimated Pay 2002 Saint Paul Property Taxes

Truth in Taxation Rates Applied to a Typical Home Valued at \$97,200



Tax Dollars and the Services They Buy

Look what less than a dollar a day can buy!

Any citizen who pays property taxes wonders where the money goes and what it buys. The pie chart on the facing page shows how your tax dollars are at work in the community. Consider the property taxes on an average residential property (\$97,200) in Saint Paul. In 2002, the owner will pay about \$982.00 in property taxes. Of that amount, \$291.69, or just under 30% of the total bill, will go to the City of Saint Paul. That's less than a dollar a day.

Police and Fire services receive two of the larger portions of your city property tax dollar. For \$64 annually, or 18¢ per day, property taxpayers of an average-priced home are provided with 24-hour law enforcement protection. For \$44 a year, or 12¢ per day, they receive around-the-clock fire and medical response. In addition to their immediate response services, both departments offer invaluable education and prevention programs.

Just \$86 covers capital debt, the city's annual cost of repaying bonds that finance street construction, new libraries, recreation centers, children's play equipment and other capital improvements made over the last ten years.

\$27 goes to Parks and Recreation to provide a wide array of neighborhood recreational activities and to maintain and improve 42 recreation centers and 4,000+ acres of city park land.

For \$13, the Saint Paul Public Libraries offer taxpayers access to millions of books through the Metropolitan Library Service Association (MLSA) lending system and other library resources at their neighborhood libraries.

There is no increase in the city's property tax levy for 2002, the eighth straight year of no increases in property taxes.